

## CALENDAR ITEM

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09/03/99

STAFF

### REPORT TO THE STATE LANDS COMMISSION ON THE STATUS OF STATE OFFSHORE OIL AND GAS LEASES

At the State Lands Commission's June 14, 1999 meeting the staff presented to the Commission the ***California Offshore Leasing and Development Status Report*** dated May 25, 1999 which had been prepared by the staffs of the Coastal Commission and State Lands Commission for the California Secretary of Resources. Although this report focused primarily on 40 undeveloped federal OCS leases, it also contained information on the 42 offshore oil and gas leases that are still active, to one degree or another, in state waters. At the Commission's June hearing representatives of Santa Barbara County and the Santa Barbara County Environmental Defense Center requested more information about the status of non-producing leases in state waters most of which were offshore Santa Barbara County. In addition, a letter from State Senator Jack O'Connell was presented asking for similar information. This report will focus in greater detail on the status of each state lease, whether still producing, or non-producing and concludes, in exhibit B, with a description of each lease and its status.

#### OVERVIEW

Offshore oil and gas development on state tide and submerged lands is an industry in decline. At its zenith, in 1968, the state had leased 153,597 acres comprising fifty-eight individual oil and gas leases. Then, in January of 1969, a well located on a federal lease in the Santa Barbara Channel blew out spilling 80,000 barrels of oil into the water. In the three decades following this disaster the State of California has not conducted a single new offshore oil and gas lease sale.

The State Lands Commission presently has forty-two offshore oil and gas leases. These leases are depicted on exhibit A. Of the forty-two, only seventeen are still producing oil and gas. One, although not producing, is being used for water injection in association with producing leases. The remaining twenty-four leases have no production. Of these twenty-four non-producing leases five have never had production on them while the remaining nineteen have had their production terminated by the lessee.

Each of the forty-two remaining leases, none less than thirty years old, has a unique history depending on a variety of factors. These factors include the type of lease agreement used, the law in effect at the time the lease was issued, whether the lease

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has been developed or not, whether it is still producing, the effect of the Commission's 1969 drilling moratorium and differing circumstances relating to abandonment.

PRODUCING LEASES

There are ten producing leases offshore Orange County, one offshore Los Angeles County, five offshore Ventura County and two offshore Santa Barbara County. These leases are produced from four platforms, one artificial island and several large onshore drill sites. In addition there are four artificial drilling and production islands with over 1,300 wells that develop the state's Long Beach Unit interests. Over the years these and other offshore oil developments in state waters have produced more than \$6 billion in non-tax revenue. Most of the State Water Project and a good portion of the University of California system have been built with these funds.

The lessees of the producing leases are: Aera Energy LLC, a limited liability company, owned by Mobil and Shell (six leases); Nuevo, a large, publicly held independent oil company (two leases); Breitburn, a small independent oil company (one lease); ARCO Long Beach Inc., a wholly owned subsidiary of ARCO (one lease); Berry, a large independent (two leases); Venoco, a new independent oil company with substantial holdings in federal waters in the Santa Barbara Channel (two leases) and Rincon Island Limited Partnership (RLIP), a small independent oil company (three leases). Rincon Island limited Partnership is in Chapter 11 Bankruptcy reorganization. The Commission's staff, with the assistance of the Attorney General's office, is monitoring this lessee closely to ensure that continued operations are conducted in an environmentally safe manner.

NON-PRODUCING LEASES

Of the twenty-five non-producing leases, three leases have quitclaims before the Commission for acceptance at the September 3, 1999 meeting. The quitclaim leases are:

LEASE NO.	LESSEE	COUNTY
2725	Texaco	Santa Barbara
2726	Texaco	Santa Barbara
3499	Exxon	Santa Barbara

While lease No.2725 had production on it, Lease No.'s 2726 and 3499 have never been productive.

There are two non-producing leases offshore the cities of Huntington Beach and Seal Beach.

LEASE NO.	LESSEE	COUNTY
186	Exxon	Orange
3413	Nuevo	Orange

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Lease No. 186 is in the midst of the abandonment process, which involves removal of the drilling and production facility known as Belmont Island. Lease No. 3413 has been, and will continue to be, used for water injection in the Huntington Beach offshore field pursuant to State Lands Commission approval of Nuevo's waterflood project.

Two leases are completing a well abandonment and pier removal project.

LEASE NO.	LESSEE	COUNTY
427	Mobil	Ventura
429	RILP	Ventura

The wells have been abandoned and the majority of the pier removal work has been done.

Three leases have completed well abandonment and the removal of four drilling and production platforms offshore Carpinteria, Santa Barbara County.

LEASE NO.	LESSEE	COUNTY
3133	Exxon	Santa Barbara
3150	Chevron	Santa Barbara
1824	Chevron	Santa Barbara

The Exxon lease is ready to be returned to the state and a letter has been sent to Exxon requesting a quitclaim. The two Chevron leases are awaiting resolution of the controversy surrounding whether or not large mounds of drilling mud and cuttings encased in shells, should be removed or allowed to remain in place.

Two non-producing leases that were once developed from two of the four Carpinteria platforms, have drilling deferments until November 1, 1999.

LEASE NO.	LESSEE	COUNTY
4000	Carone	Santa Barbara
7911	Carone	Santa Barbara

Any development will require the approval of several federal, state and local agencies including the State Lands Commission and the Coastal Commission and would take place from an existing federal platform.

Venoco has three non-producing leases in close proximity to its platform Holly.

LEASE NO.	LESSEE	COUNTY
129	Venoco	Santa Barbara
208	Venoco	Santa Barbara
421	Venoco	Santa Barbara

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Lease 421 is the site of "Bird Island" a remnant of an abandoned oil pier. In addition, lease 421 has two wells in the near shore area on concrete and steel caissons which are connected to shore by a small wooden structure. Venoco has applied to the County for permission to activate the wells. Lease 208 has just completed debris removal. Lease 129 has completed the well abandonment process. A letter requesting a quitclaim has been sent.

Unocal has three leases in close proximity to one another which have not been developed and from which the Commission's drilling moratorium has never been lifted.

LEASE NO.	LESSEE	COUNTY
2991	Unocal	Santa Barbara
3004	Unocal	Santa Barbara
3503	Unocal	Santa Barbara

None of these leases have ever had production on them and are still subject to the Commission's drilling moratorium. Each lease has had exploratory wells drilled and abandoned on it. Two of the leases have just completed a debris removal program. A letter has been sent to Unocal requesting a quitclaim of lease 2991. In theory, leases 3004 and 3503 could be developed from an adjacent federal lease. The federal lessee, Samaden, has requested approval from the Minerals Management Service to place a platform in federal waters and intends to request assignment of the state leases.

Three non-producing leases are part of a natural gas development project approved by the State lands Commission, the County of Santa Barbara and the Coastal Commission. They are being developed from a Santa Barbara County approved consolidated onshore drill site adjacent to the County approved consolidated onshore oil and gas processing site at Gaviota.

LEASE NO.	LESSEE	COUNTY
2199	Benton	Santa Barbara
2894	Benton	Santa Barbara
2920	Benton	Santa Barbara

There has been one well drilled in 1998. It was unsuccessful. Benton has a drilling deferment, which expires in September 1999. Benton has requested an extension of the deferment which will be heard at the Commission's September 3, 1999 meeting. The County of Santa Barbara has already granted an extension.

There are four remaining non-producing leases.

LEASE NO.	LESSEE	COUNTY
2206	Texaco	Santa Barbara
2793	ARCO	Santa Barbara
2879	Unocal	Santa Barbara
2933	Phillips	Santa Barbara

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Texaco has indicated that it intends to return lease No. 2206 to the state and a quitclaim has been requested. ARCO, Unocal and Phillips have just completed an offshore well abandonment and debris removal program. Unocal is also in the process of abandoning four remaining onshore wells. ARCO intends to return its lease to the state and a quitclaim has been requested. Benton is negotiating with Phillips to include lease 2933, by way of assignment, in Benton's natural gas development project.

### **LEASE DEVELOPMENT OBLIGATIONS**

Existing State Lands Commission offshore leases were issued over a 30-year period from 1938 to 1968. (Lease No. 7911 is a 1996 partial assignment of sub-surface zones in Chevron's Lease No. 3150; while Aera's lease No. 4736 is the result of a 1973 boundary settlement agreement.) Although seven different lease forms are represented, they can basically be divided into two main types; those that were issued prior to January 1, 1956 and those that were issued after that date.

All of the state leases written after January 1, 1956 reflect the last major update of the state's oil and gas leasing statutes which were contained in the Cunningham-Shell Act (Chapter 1724, Statutes of 1955). Of the forty-two leases presently in state waters, twenty-six leases are Cunningham-Shell leases while sixteen are pre Cunningham-Shell leases. Although ten of the pre Cunningham-Shell leases are producing oil and gas, only seven Cunningham-Shell leases have production leaving the remaining nineteen such leases idle.

One of the most significant differences between these two types of leases are the provisions regarding development obligations and how they relate to lease termination. The pre Cunningham-Shell leases were relatively simple. Primary terms were generally for five, ten or twenty years and could be extended by agreement of the lessee and the state. All of these leases were eventually extended. The lessee had forty-five days to begin drilling the first well and was required to diligently pursue the drilling program, which was incorporated into the lease, until the lease was fully developed. If, after thirty days written notice, a default remained uncured, the state could seek to cancel the lease and retake possession of it. During the term of the lease, the lessee could quitclaim all or any portion of the lease back to the state.

The Cunningham-Shell lease has more expansive provisions. The primary term is for twenty years, and for so long thereafter as gas or oil is produced in paying quantities, or the lessee is diligently conducting producing, drilling, deepening, repairing, redrilling or other necessary lease or well maintenance operations. The drilling of the first well must be initiated within a three year drilling term. Other lease provisions require the lessee to continue drilling until the lease is fully developed. If the lessee fails to begin drilling a well during the three year drilling term or to continue developing the lease, the lease could come to an end. If at any time after production has been established, whether before or after the primary term, the leased lands cease to produce oil or gas, the lease remains in full force and effect if within six months after the cessation of production, or such longer period as the Commission might authorize, the lessee

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commences and diligently pursues lease operations to return the lease to production. Lease defaults can be cured on ninety days written notice. During the term of the lease, the lessee can quitclaim all or any portion of the lease back to the state subject to acceptance of the quitclaim by the state. All of these diligence requirements are designed to ensure that each lease is fully developed.

### **THE DRILLING MORATORIUM**

On January 28, 1969, a Union Oil Company well, offshore Santa Barbara County, in federal waters, blew out of control releasing an estimated 80,000 barrels of oil (42 gallons per barrel) into the ocean environment. It was an environmental disaster, which caused severe pollution and a public outcry for more stringent controls on offshore oil and gas development.

On February 1, 1969, in response to this event, the Chairman of the State Lands Commission, in order to prevent a similar disaster on state leases, announced the establishment of a drilling moratorium. The basis of the moratorium was the Commission's inherent authority and responsibility to guard against pollution of the ocean waters and protect the marine environment.

Through additional Commission actions the scope of the moratorium soon became (1) a directive to the staff to conduct a technical review of the spill and to review all controls for operations on state lands; (2) a cancellation of all existing geological survey (exploratory drilling ) permits; and (3) an institution of a moratorium on all new well drilling on state offshore lands.

During Commission meetings In April of 1971, the Commission provided that the running of the initial three-year drilling term on those leases where drilling had not begun at the time the moratorium was imposed, would be suspended for the period of the moratorium, so that a lessee would have a full three years to meet the initial drilling obligation once the moratorium was lifted. For those leases on which drilling had begun when the moratorium was imposed, the Commission provided that the lessees shall have six months after the end of the moratorium in which to meet the drilling requirements.

At its meeting in December 1973, the Commission decided upon a method for lifting the moratorium. The Commission determined to lift the moratorium and permit the resumption of drilling operations on a lease by lease basis predicated upon a review by the Staff of the lessee's compliance with the Commission's drilling and operating procedures, a review under the newly enacted California Environmental Quality Act and final approval by the Commission. Under the method established by the Commission for lifting the drilling moratorium, the moratorium continues until a lessee comes to the Commission with a request to begin drilling operations and the Commission approves the request.

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Over the ensuing years most lessees have applied to the Commission to have the moratorium lifted. Presently only seven leases subject to the moratorium are still in existence, two of which, PRC's 2725 and 2726, are being quitclaimed to the state at the Commission's September 3, 1999 meeting. Two more leases, Arco's 2793 and Unocal's 2991, both in Santa Barbara County, are expected to be returned to the state shortly. Nuevo's Orange County Lease No. 3413 is being utilized for water injection in support of production. The remaining two leases are Unocal's Lease Nos. 3004 and 3503 offshore Santa Barbara County.

### **THE SUBSEA WELL ABANDONMENT AND DEBRIS REMOVAL PROGRAM**

The Subsea Well Abandonment and Rig Sharing Program (SWARS) was initiated in 1988, following a request by Unocal to abandon certain subsea wells on two of its leases. Following this request, other companies submitted proposals to abandon subsea wells and associated production flowlines on their leases. In an effort to minimize environmental impacts, the Commission suggested the companies work together and utilize a single mobile jack-up drilling platform that could sequentially complete abandonment of all of the subsea wells. The companies agreed. The program included a group of six oil and gas lessees including ARCO, Cal Resources (formerly Shell), Chevron, Phillips, Texaco and Union covering leases: PRC's 1824, 2199, 2726, 2793, 2879, 2894, 2920 and 2933. All of the leases involved in the SWARS are located offshore Santa Barbara County.

Additionally, there were a number of leases that had debris identified on them which had been left from past operations. This debris could be easily retrieved with the support vessels associated with the SWARS program. The leases included in the debris removal involved PRC's 208, 2198, 2205, 2207, 2725, 2991, 3004, 3120, 3133, 3150, 3184, and 3499. Leases 2198, 2205, 2207, and 3184 have already been returned to the state. The remaining debris removal leases are located offshore Santa Barbara County. Together SWARS and the debris removal program account for 15 out of 25 non-producing state offshore oil and gas leases.

It took many years for the companies to organize the program and complete the required environmental work. Actual abandonment work did not begin until 1996 and was not completed until 1998. The final debris removal was completed in early 1999.

Now that the SWARS program and debris removal project have been completed, many of these leases will be returned to the state. All have been idle since the early 1990's while the abandonment and clean-up projects were undertaken. During this period there have been some discussions with the lessees about potential development. However, with the exception of the three Benton gas project leases, no development proposals have been forthcoming or approved. Although some of these leases may still have oil and gas reserves on them, the reserves, in many cases, will not support the costs of development.

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**DEVELOPMENT APPROVALS NECESSARY FOR STATE LEASES.**

In the event that the Commission were to consider development of the remaining non-producing state leases, or authorize new development drilling on existing developed leases, review under CEQA would be required. State Lands Commission, Coastal Commission and local Air Pollution Control District approval would also be necessary.

In addition, approvals may be required from other agencies such as the following:

- ◆ Department of Fish and Game
- ◆ Office of Oil Spill Prevention and Response
- ◆ Division of Oil, Gas and Geothermal Resources
- ◆ Regional Water Quality Control Board
- ◆ Local government
- ◆ US Army Corps of Engineers if a new platform is proposed in State waters
- ◆ Minerals Management Service if a federal platform is used as a drill site
- ◆ Coast Guard
- ◆ State Fire Marshall

CEQA review and State lands Commission and other agency approvals, would be required even for development of the few remaining leases which are still subject to the Commission' s drilling moratorium. Any new development proposal, as part of the CEQA process, may require an examination of changes to the environmental setting which have occurred since the last Commission action. Proposals for exploration or development projects are reviewed for compliance with the CEQA, the Public Trust Doctrine, the terms and conditions of the lease, good engineering practice and other applicable statutes, rules and regulations.